

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00

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R 160840Z JUL 74

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 4881

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONSUL HONG KONG

UNCLAS SECTION 1 OF 2 SEOUL 4616/1

HONG KONG FOR REGFINATT

E.O. 11652: N/A

TAGS: ETRD, EFIN, KS

SUBJECT: KOREAN BALANCE OF PAYMENTS AT MID-YEAR: IMPACT OF
OIL CRISIS FELT, BUT WORST MAY BE OVER

REF: (A) SEOUL 4528

(B) SEOUL A-115

(C) SEOUL A-159

(D) CERP 9102

SUMMARY: INCREASED OIL PRICES AND WEAKENING OF DEMAND IN
INTERNATIONAL MARKETS PRODUCED SIGNIFICANT DETERIORATION IN
ROK BALANCE OF PAYMENTS FOR FIRST HALF 1974. DATA STILL
INCOMPLETE, BUT FIRST HALF GOODS AND SERVICES DEFICIT APPEARS
BE ABOUT \$800 TO \$850 MILLION. GROSS RESERVES DROPPED ONLY
\$54 MILLION, BUT NET FOREIGN ASSETS DOWN \$325 MILLION AS BULK
OF FIRST HALF DEFICIT FINANCED BY SHORT TERM CAPITAL INFLOWS
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AND BANK LOANS. WHILE THERE STILL MANY UNCERTAINTIES,

PROSPECTS APPEAR REASONABLE FOR SOME STRENGTHENING OF NEW EXPORT ORDERS AND LEAVING OFF OF IMPORTS IN SECOND HALF. IF THESE TRENDS DEVELOP, FULL YEAR DEFICIT COULD STILL APPROXIMATE \$1.24 BILLION PROJECTED AT BEGINNING YEAR. CONTINUED IMPROVEMENT IN EXPORT DEMAND IN 1975 WOULD PERMIT KOREA TO ADJUST TO OIL CRISIS WITHOUT INORDINATE DIFFICULTY. END SUMMARY.

1. THIS IS SECOND OF TWO CABLES ON MID-YEAR ECONOMIC SITUATION AND OUTLOOK. REF A DEALT WITH PRODUCTION AND DOMESTIC FINANCES.

2. IMPACT OF HITHER OIL PRICES AND WEAKENING OF DEMAND IN INTERNATIONAL MARKETS PRODUCED SIGNIFICANT DETERIORATION IN ROK BALANCE OF PAYMENTS POSITION IN FIRST HALF 1974. WITH DATA ON MANY TRANSACTIONS STILL PRELIMINARY OR UNCOMPLETE, IT IS DIFFICULT GET VERY PRECISE PICTURE, BUT FIRST HALF GOODS AND SERVICES DEFICIT APPEARS BE ON ORDER OF \$800 TO \$850 MILLION AS COMPARED TO \$384 MILLION FOR FIRST HALF 1973 AND \$467 MILLION FOR ALL 1973 (SEE REF B). WHILE GROSS FOREIGN EXCHANGE RESERVES DECLINED ONLY \$54 MILLION TO \$981 MKLLION, PRELIMINARY JUNE 30 DATA SHOW NET FOREIGN ASSETS DOWN BY \$325 MILLION TO \$620 MILLION.

3. THERE STILL NO REAL CONSENSUS AMONG ROK PLANNERS ON PROJECTIONS FOR SECOND HALF. WHILE DIFFERING IN PARTICULARS, HOWEVER, MOST ESTIMATES SEE SMALLER DEFICIT FOR NEXT SIX MONTHS AND THERE SEEMS BE CONSIDERABLE AGREEMENT THAT KOREAN FOREIGN EXCHANGE (KFX) IMPORTS WILL LEVEL OFF IN SECOND HALF. ASSUMING SOME STRENGTHENING OF EXPORT DEMAND IN FINAL QUARTER, SUPPLY AVD DEMAND FOR FOREIGN EXCHANGE EXPECTED TO BE IN ROUGH BALANCE WITH NET FOREIGN ASSETS HOLDING AT ABOUT CURRENT LEVEL. BOTH EXPORTS AND IMPORTS WOULD EXCEED ORB TARGETS UNDER THOSE ASSUMPTIONS, BUT MERCHANDISE TRADE DEFICIT COULD STILL BE ON ORDER OF \$1.1 BILLION PROJECTED BY ROKG (REF B). WITH INVISIBLE TRADE DEFICIT OF ABOUT \$180 MILLION NET GOODS AND SERVICES DEFICIT WOULD BE \$1.3 BILLION (COMPARED \$1.24 FORECAST) AND NET CURRENT ACCOUNT DEFICIT ABOUT \$1.1 BILLION. TRADE AND OTHER DEFICITS COULD ALSO BE ROUGHLY \$300 MILLION HIGHER, HOWEVER, IF TRADE ASSUMPTIONS TOO OPTIMISTIC.

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4. EXPORTS: FIRST HALF VISIBLE TRADE DEFICIT (BOP BASIS) APPEARS TO BE ABOUT \$700 MILLION WITH EXPORTS OF ABOUT \$2.2 BILLION AND IMPORTS OF APPROXIMATELY \$2.9 BILLION, EXPORT TOTAL, WHILE 63 PCT ABOVE LAST YEAR'S FIRST HALF, HAS SHOWN MARKED SLOWING OF EXPORT GROWTH RATE FOLLOWING LAST YEAR'S STEEP CLIMB. TENTATIVE 2ND QUARTER FIGURE UP ONLY ABOUT 7 PCT OVER 4TH QUARTER 1974. EXPORT LETTER-OF-CREDIT (L/C) ARRIVALS THROUGH JUNE TOTALLED \$2,245 MILLION, ONLY 37 PCT OVER FIRST

SIX MONTHS 1973 AND BARELY ABOVE VALUE OF FIRST HALF SHIPMENTS.

5. EXPORTS TO JAPAN AND U.S., WHICH TOGETHER ABSORBED 70 PCT OF 1973 SHIPMENTS ACCOUNT FOR 64 PCT OF PRELIMINARY FIRST HALF 1974 TOTAL. WHILE JAPAN, WITH 35 PCT, CONTINUES BE LARGEST MARKET, A POSITION IT ACHIEVED FOR FIRST TIME IN 1973, RATE OF EXPORT L/C ARRIVALS SUGGEST SHIPMENTS TO JAPAN WILL BE SLUGGISH IN SECOND HALF. L/C ARRIVALS FROM U.S., IN CONTRAST, INDICATE U.S. PURCHASES MAY BE SOMEWHAT STRONGER OVER NEXT SIX MONTHS THAN IN FIRST HALF, WHEN EXPORTS UP 37 PCT OVER YEAR EARLIER. FORTUNATELY FOR ROK, IT IS CONTINUING MAKE PROGRESS IN DIVERSIFYING ITS EXPORT MARKETS. EXPORTS TO SOME THIRD COUNTRIES BEHIND EXPECTATIONS, BUT THIS HAS BEEN MORE THAN OFFSET BY STRONG PERFORMANCES IN A NUMBER OF OTHER COUNTRIES, PARTICULARLY WEST GERMANY, NETHERLANDS, ITALY, AUSTRALIA AND SOUTH AFRICA.

6. AMONG MAJOR PRODUCTS, TEXTILE EXPORTS UP 70 PCT OVER YEAR AGO, BUT EXPORT L/C ARRIVALS ARE DISAPPOINTING AND OUTLOOK IS UNCERTAIN AT BEST. PLYWOOD FARING EVEN WORSE WITH ACTUAL SHIPMENTS DOWN 15 PCT AND LITTLE PROSPECT FOR UPTURN IN NEAR FUTURE. THOUGH UP 67 PCT OVER JAN-JUNE 1973, FIRST HALF ELECTRONIC PRODUCT EXPORTS REPRESENT LESS THAN 30 PCT OF AMBITIOUS 1974 TARGET. PICTURE IS BRIGHTER, HOWEVER, FOR IRON AND STEEL PRODUCTS, FOOTWEAR AND PLASTIC GOODS, ALL OF WHICH ARE DOING BETTER THAN ANTICIPATED.

7. ESTIMATES FOR SECOND HALF EXPORTS VARY SUBSTANTIALLY WITH MOST OPTIMISTIC GOING AS HIGH AS \$2.8 BILLION. MOST PROJECTIONS, HOWEVER, PUT FULL YEAR EXPORTS AT ABOUT \$4.7 TO \$4.8 BILLION, OR \$200 TO \$300 MILLION OVER ORB TARGET OF \$4.5 BILLION. EVEN THESE FORECASTS DEPEND ON MODERATE STRENGTHENING OF DEMAND IN 4TH QUARTER.

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8. IMPORTS: FIRST HALF IMPORTS ARE UP APPROXIMATELY 68 PCT OVER MID-YEAR 1973 TOTAL, WITH PRICE INFLATION, VOTABLY FOR CRUDE OIL, A MAJOR FACTOR. ROK OFFICIALS, ALSO EMPHASIZE THAT RAW MATERIAL STOCKPILING PROGRAM HAS CONTRIBUTED TO HIGH VALUE OF IMPORTS. BASED ON CIF DATA THROUGH MAY, VALUE OF RAW MATERIAL IMPORTS EXCLUDING PETROLEUM (SITC 2,4 AND 5) WAS UP 99 PCT AS COMPARED TO 69 PCT FOR ALL IMPORTS AND 37 PCT FOR IMPORTS EXCLUDING RAW MATERIALS AND PETROLEUM.

9. LARGE RISE IN VALUE OF OIL IMPORTS DISTORTS COMPARISONS WITH PAST MARKET SHARE DATA. BASED ON FIVE MONTH DATA, IMPORTS FROM U.S. INCREASED 37 PCT OVER YEAR EARLIER, BUT U.S. SHARE HAS DECLINED TO 25PPCT COMPARED TO 28 PCT FOR 1973 AS WHOLE. JAPANESE SHARE SLIPPED THREE PERCENTAGE POINTS TO 38 PCT.

10. AS WITH EXPORTS, THERE ARE AS MANY PROJECTIONS FOR SECOND HALF IMPORTS AS THERE ARE SOURCES. WITH LARGE INVENTORIES OF RAW MATERIALS ON HAND, HOWEVER, MOST ROK PLANNERS APPEAR CONFIDENT OF HOLDING SECOND HALF KFX IMPORTS TO APPROXIMATELY FIRST HALF LEVEL. KEY VARIABLE FOR SECOND HALF TOTAL WOULD THEN BE LEVEL OF IMPORTS FINANCED BY FOREIGN LOANS OR EQUITY INVESTMENT. ASSUMING LOAN OR EQUITY-FINANCED IMPORTS OF ABOUT SAME MAGNITUDE AS FIRST HALF, FULL YEAR IMPORTS WOULD BE ABOUT \$5.8 TO \$5.9 BILLION OR ABOUT \$200 TO \$300 MILLION OVER ORB TARGET.

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TO SECSTATE WASHDC 4886

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

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UNCLAS FINAL SECTION OF 2 SEOUL 4616/2

HONG KONG FOR REGFINATT

11. INVISIBLE TRADE: INVISIBLE TRADE RESULTS HAVE BEEN DISAPPOINTING WITH PRELIMINARY DATA INDICATING A SURPRISINGLY LARGE DEFICIT OF ABOUT \$120 MILLION IN FIRST HALF. PROBLEM IS CHIEFLY ON RECEIPTS SIDE SINCE PAYMENTS NEAR FORECASTED LEVEL. TOURISM RECEIPTS THROUGH MAY WERE DOWN 20 PCT FROM YEAR EARLIER AND \$200 MILLION ORB TARGET NOW LOOKS MODERATELY OPTI-

MISTIC. RECEIPTS FROM FREIGHT AND INSURANCE AND GOVERNMENT TRANSACTIONS ALSO LOWER THAN ANTICIPATED. RECEIPTS SHOULD IMPROVE SOME IN SECOND HALF, PRIMARILY REFLECTING SEASONAL INCREASE IN TOURISM EARNINGS, BUT FULL YEAR DEFICIT OF PERHAPS \$170 TO \$180 MILLION APPEARS LIKELY. THIS CONTRASTS WITH \$190 MILLION DEFICIT PROJECTED IN ORB.

12. TRANSFERS: THERE LITTLE HARD DATA ON FIRST HALF TRANSFERS, BUT INDICATIONS ARE THAT 1974 TOTAL WILL APPROXIMATE 1973 SURPLUS OF \$188 MILLION RATHER THAN ORB ESTIMATE OF \$241 MILLION.

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13. SHORT AND MEDIUM TERM CAPITAL: TO AVOID SHARP DROP IN GROSS FOREIGN EXCHANGE RESERVES, ROK RELIED HEAVILY ON SHORT-TERM CAPITAL INFLOW AND LONG-TERM BANK LOANS TO FINANCE FIRST HALF DEFICIT. WHILE DATA STILL VERY ROUGH IT APPEARS NET SHORT AND MEDIUM TERM CAPITAL INFLOWS TOTaled ABOUT \$430 MILLION IN FIRST SIX MONTHS COMPARED TO ORB TARGET OF \$374 MILLION FOR FULL YEAR. PREMIMINARY FIGURE FOR BANK LOAN ARRIVALS IS \$132 MILLION, ONLY \$8 MILLION LESS THAN ORB ESTIMATE FOR YEAR AS WHOLE. WHILE \$430 MILLION NET FOR SHORT AND MEDIUM TERM CAPITAL INCLUDES \$148 MILLION IN TRADE CREDITS, IT ALSO INCLUDES NET DECLINE IN BANK ACCOUNTS ABROAD OF \$130 MILLION AND NET REFINANCING OF \$116 MILLION.

14. WITH KEY ASSUMPTIONS THAT KFX IMPORTS CAN BE HELD TO FIRST HALF LEVEL AND THAT EXPORT DEMAND WILL STRENGTHEN IN LATTER PART OF YEAR, SUPPLY AND DEMAND FOR FOREIGN EXCHANGE FOR CURRENT TRANSACTIONS EXPECTED TO BE IN ROUGH BALANCE FOR SECOND HALF. WITH EXCEPTION OF SOME FURTHER INCREASE IN TRADE CREDITS, NET INFLOW OF SHORT TERM CAPITAL COULD THEN BE EXPECTED TO TAPER OFF AT ABOUT MID-YEAR LEVELS WITH MOST OF SECOND HALF DEFICIT BEING FINANCED BY LONG-TERM INFLOWS.

15. LONG-TERM CAPITAL: DATA ON FIRST HALF LONG-TERM FLOWS TOO FRAGMENTARY TO ALLOW MUCH COMMENT EXCEPT THAT NET INFLOW APPEARS TO HAVE BEEN LOWER THAN EXPECTED. UNOFFICIAL DATA ON COMMERCIAL LOAN APPROVALS THROUGH MAY, HOWEVER, INDICATES APPROVALS WERE UP 200 PCT OVER FIRST FIVE MONTHS 1973, SUGGESTING COMMERCIAL LOAN ARRIVALS MAY RISE IN SECOND HALF, EQUITY INVESTMENT APPROVALS, ON OTHER HAND, WERE DOWN 53 PCT OVER SOME PERIOD. DATA ON PUBLIC LOAN APPROVALS NOT AVAILABLE AT THIS TIME, BUT WITH CURRENT SUSPENSION OF PL-480 CONCESSIONAL LOANS, FIGURE IS CERTAIN TO BE BELOW THAT OF YEAR AGO. DEBT SERVICE RATIO, WHICH FELL FROM 18 PCT TO 14 PCT IN 1973, SHOULD DECLINE FURTHER TO 11-12 PCT (SEE REF C).

16. COMMENT: FIRST HALF DETERIORATION IN BOP POSITION, COMING AFTER TWO YEARS OF EXCELLENT PROGRESS IN NARROWING PAYMENT

DEFICIT AND IMPROVING DEBT STRUCTURE, REFLECTS ADJUSTMENT TO HIGHER OIL PRICES AND WEAKER DEMAND IN MOST INTERNATIONAL MARKETS. KOREANS HOPE SECOND HALF EXPORT AND IMPORT TRENDS WILL INDICATE BOTTOM HAS BEEN REACHED AND NEW START MADE TOWARDS UNCLASSIFIED

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REDUCING DEPENDENCY ON EXTERNAL CAPITAL. REQUIREMENTS FOR SHORT TERM CAPITAL INFLOWS TO MAKE THIS ADJUSTMENT WERE SOMEWHAT UNDERESTIMATED IN EARLIER FORECASTS AND NET FOREIGN ASSETS HAVE DECLINED MORE THAN ORIGINALLY FORESEEN. IF CURRENT POSITION CAN BE HELD, HOWEVER, DECLINE APPEARS ACCEPTABLE, GIVING KOREA'S ABILITY TO BORROW DUE TO ITS IMPROVED DEBT RATIO AND CREDIT-WORTHINESS. KOREA CAN ALSO DRAW FROM THE IMF \$24 MILLION UNDER ITS GOLD TANCHE, AT LEAST \$25 MILLION UNDER THE NEW OIL CREDIT FACILITY AND A POSSIBLE ADDITIONAL \$24 MILLION UNDER ITS STANDBY AGREEMENT.

17. NOT SURPRISINGLY, EXPORTERS HAVE BEEN PRESSING FOR DEVALUATION OF WON, BUT ROK OFFICIALS HAVE REPEATEDLY STATED BOTH PUBLICLY AND PRIVATELY THAT THEY DO NOT FORESEE POSSIBILITY AS THIS TIME. THERE HAVE, LIKEWISE, BEEN NO INDICATIONS THAT ANY UNUSUAL MEASURES TO RESTRICT IMPORTS ARE IMMINENT. WHILE ASSUMPTION ON SECOND HALF EXPORT TREND APPEARS REASONABLE, HOWEVER, IMPORT ASSUMPTION MAY BE TOO OPTIMISTIC. SHOULD STRONGER EXPORT DEMAND NOT MATERIALIZE OR IMPORT DEMAND FALL TO LEVEL OFF, PRESSURES TO TAKE ACTION TO STIMULATE EXPORTS AND/OR RESTRAIN IMPORTS COULD INTENSIFY RATHER QUICKLY.

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Decaption Date: 01 JAN 1960
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Disposition Action: n/a
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